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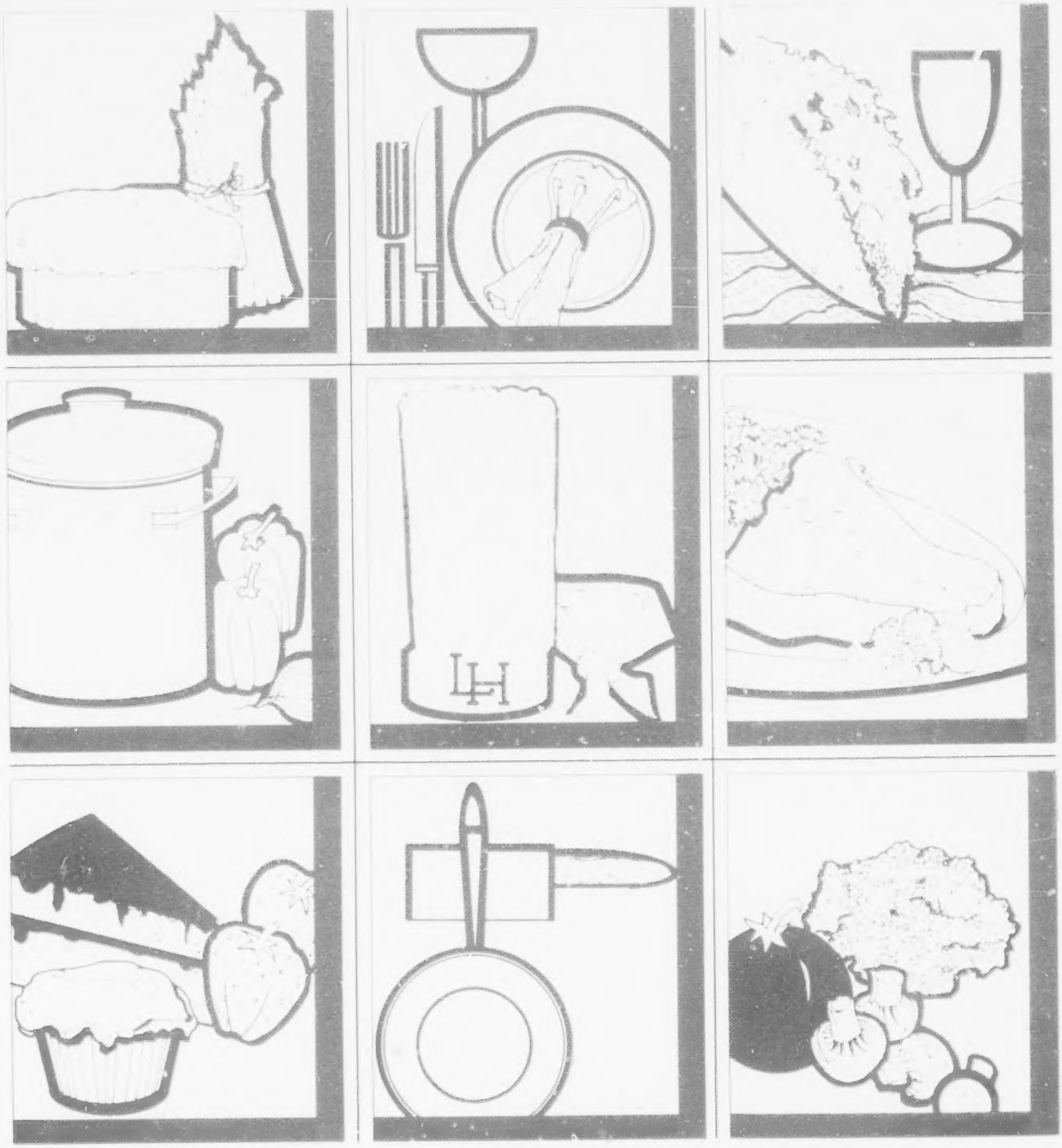
LAVENTHOL & HORWATH
CERTIFIED PUBLIC ACCOUNTANTS

CALIFORNIA RESTAURANT OPERATIONS 1980



FIFTH ANNUAL REPORT ON
RESTAURANT OPERATIONS IN CALIFORNIA

California Restaurant Operations 1980 Edition

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Introduction

In Laventhol & Horwath's fifth annual report on restaurant operations in California, we present 1979 and 1978 financial comparisons for:

- All restaurants
- Full service dinner houses
- Coffee shops

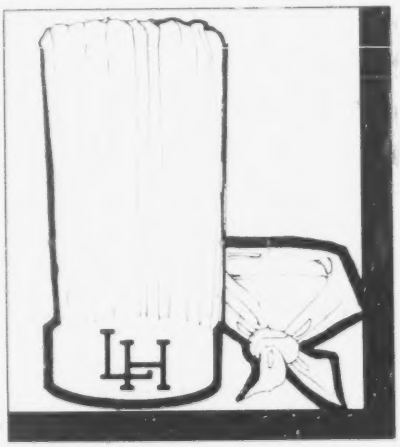
This report contains information from California restaurants based on:

- Sales volume — less than $1,000,000 or $1,000,000 and over.
- Number of years in operation — less than 2 years, between 2 and 4.9 years, between 5 and 10 years, or over 10 years.
- Type of management — company operated, management contract or individual owner. (None of the restaurants in the sample were franchised.)
- Liquor service — full liquor service, wine and beer only or no alcoholic beverages.
- Hours of operation — open 24 hours or open less than 24 hours.

The reader is cautioned that the average operating results and percentages are not to be considered standards for the industry, nor are they necessarily attainable or desirable goals. Furthermore, the sample of contributing restaurants changes somewhat each year, so that some changes in financial results from year-to-year are a function of changes in the restaurant sample. However, the results can be considered guidelines for comparison with the results of your own operation, and a worksheet for that purpose has been provided, following text and schedules.

In addition to the historical information presented in this report, we offer our predictions concerning developments in the California restaurant industry. We foresee that previously isolated innovations in current industry practices will become the norm over the next year or so. We offer these predictions in our section entitled "Laventhol & Horwath's Five Significant Industry Predictions."

For those who may not be familiar with all of the industry terminology and the accepted methods for calculating operating ratios, we have included an addendum to this report, "Using Restaurants Financial Ratios and Analysis," which is a chapter from the book *Profitable Restaurant Management*, by Kenneth I. Solomon and Norman Katz, published by Prentice-Hall, Inc. For additional information concerning the terminology and structure of the restaurant accounting system, we refer the reader to the *Uniform System of Accounts For Restaurants*, published by the National Restaurant Association.



Industry Outlook

by Robert Patterson
Partner
Los Angeles

1980 appears to have been a difficult year for California restaurant operators, as it has for operators around the United States. While California has not felt the recession as severely as some parts of the country, it has seen a greater increase in new restaurant competition.

While year-end operating data are not yet available, we expect that operating profits will have declined, perhaps significantly, from 1979. The major factors in the profit decline are:

1. Continued significant cost increases in payroll, energy and cost of sales.
2. Customer resistance to menu price increases, resulting in prices failing to keep pace with costs.
3. Declining "real sales" (as measured by customer counts) for the average restaurant.

As usual, there are exceptions to these generalities. Luxury restaurants and those dependent on the commercial traveler seemed less affected while restaurants dependent on tourists tended to suffer more than the average. In the *1978 California Restaurant Operations* report, we indicated that "conceptual obsolescence" was a new concern of both independent and chain operators.

Several years ago, the purpose of a renovation or any form of product improvement was undoubtedly to increase customer count. While that is still a highly desirable objective, many operators now talk about the more defensive strategy of "insuring present market share."

Very few operators talk about adding new units in the immediate future. Those that are expanding, tend to be operators of one to five units whose concept has found a market niche, or operators who are concentrating on small but rapidly developing market areas. The larger chains are concentrating on increasing profit from existing units by:

1. Streamlining operations.
2. Selling a more profitable mix of products (such as lower food cost specials).
3. Attracting more customers by offering higher price/value products and/or operating the restaurant at additional hours for brunch, "early birds" or late evening specials.

Some of the chains working on new concepts do not intend to use the concepts as an expansion vehicle. Rather, they intend to convert less profitable, or unprofitable, existing units to the new concepts.

Laventhol & Horwath's Five Significant Industry Predictions

For a number of years, California has been regarded as a pace setter for emerging trends in the restaurant industry. Because Laventhol & Horwath is involved with many restaurants at the development stage, we often gain a perspective of emerging factors not yet sufficiently developed to be considered trends.

As with the last *California Restaurant Operations*, we have again incorporated some of our restaurant industry specialists' observations as informal predictions. We believe that each of this year's predictions is likely to emerge as a genuine trend within the next one to two years. Based on our observations, we offer this year's five predictions:

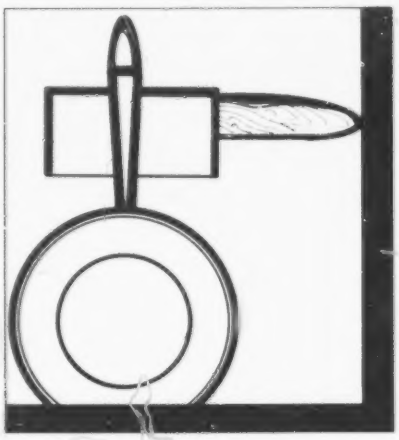
1. With the rate of development of new restaurants curtailed, operators will heavily favor locations with **built-in-markets.** For the most part, these will tend to be mixed-use developments which will practically guarantee a high level of patronage at more than one serving period. Typically, such developments will have either retail or office elements to promote daytime volume and quality residential or hotel elements to promote evening business. The development of traditional freestanding restaurant locations will decline commensurately.
2. **Lower rent** will characterize leases over the next several years. With most operators reluctant to expand at all, an extremely expensive lease would make the prospect even less palatable. Further, in the mixed-use developments referred to above, quality food service is a necessity, not just an amenity. In order to attract California's expansion-reluctant operators, financial incentives will have to be more substantial than they have been. Incentives are likely to take the form of one or more of the following: lower minimum rent, lower percentage, increased allowances, or less passthrough of common area charges.
3. **Customer = king = club member.** The situation of the early to mid-70s when dinner houses had hour-and-a-half waits and took no reservations is largely over. Operators no longer believe there are plenty of other potential patrons to take a disgruntled customer's place. In the next few years, many operators will go to

Five Significant Industry Predictions (cont.)

relatively unprecedented lengths to develop a group of "brand loyal" customers. Many restaurants will acquire some of the characteristics of clubs, such as:

- Extremely significant "repeat clientele," particularly at lunch, to the point where the repeat customer will recognize most of the people in the dining room.
- Emphasis of name recognition of customers.
- Use of paid "memberships" to entitle customers to benefits such as guaranteed reservations, use of the best tables, and preferred customer discounts. Unlike some of the dining clubs where membership encourages trying a variety of restaurants, the intent will be to encourage frequent patronage at one restaurant through financial incentives and recognition.

4. **The management contract** will become a factor in the restaurant industry. Historically, there have been very few groups who manage restaurants for someone else's account. With the capital costs of developing a restaurant greatly increased, and with a set of external economic factors which adds up to greater risks, there are many chains with sophisticated systems and personnel who will not or cannot expand their own restaurants. In order to utilize and promote the growth of their personnel, these chains will be amenable to management contracts offering a combination of guaranteed returns and profit incentives. Their services will appeal to several types of "owners":
   - The landlord whose less sophisticated tenant has failed.
   - The developer who can only attract the quality of operator he desires by taking most of the financial risk himself.
5. **The "Dinner House" franchise will arrive.** A progressively larger number of dinner house chains, whose corporate management time was previously devoted to expansion, will re-channel resources to development of a franchise package. This, like management contracts, will be an attempt to utilize resources without the financial risk inherent in company unit development. In some cases, the franchisee may also contract for the franchisor's management services. While we perceive this franchising area as an emerging trend, we believe three factors are absolutely essential for its success:
   - The financial and operational system of the franchisor must be extremely well documented, due to the extremely high complexity of the product.
   - The franchisee must have access to a management with adequate sophistication to implement the systems. (We cannot imagine a successful "Dinner House University".)
   - The royalty fees must not be so significant that they remove most of the profit incentive.



The Restaurant Study

by Randell A. Smith and Joan K. Spence
Research, Development & Education
Laventhol & Horwath

Operational Highlights

- Sales per seat for coffee shops in 1979 were $6,435 while dinner houses reported sales of $6,071 per seat.
- Foods costs per dollar of sales were 30 cents or $1,863 per seat.
- The average total check was $7.14 for dinner houses and $5.43 for coffee shops.
- Net income before income taxes was 11.1 percent of total sales or $735 per seat.
- Overall distribution of the restaurant dollar for all reporting restaurants was as shown in Exhibit 1.

Bases of Analyses

The restaurants covered by this report include both coffee shops and full-service dinner houses. In some cases, results are reported on a combined basis, while in others, the results from each group are shown separately.

The comments and exhibits of this report are presented in terms of amounts per seat and percentages of sales, common bases for measurement in the industry. The number of seats includes those in public dining areas, bars and lounges, and banquet facilities. The ratios to total sales are based on total food and beverage sales except for the cost of food sold and the cost of beverages sold which are percentages of their respective sales. All figures are the arithmetic means of the data provided except for those in Exhibit 1, the 1979 Restaurant Industry Dollar, which are weighted means. Exhibit 1 provides guidelines for comparison with the overall restaurant industry rather than standards for individual properties. Each line item has been analyzed separately and the means are based on the information submitted for that line item only, since all restaurants did not report data for each line.

Exhibit 1

The 1979 Restaurant Dollar

Sales	
Food	76.6%
Beverage	23.4
Total Sales	100.0%
Cost of Sales	
Food	31.0%
Beverage	5.6
Total Cost of Sales	36.6%
Total Gross Profit	63.4%
Other Income	6%
Total Income	64.0%
Controllable Expenses	
Payroll	25.8%
Employee benefits	5.7
Direct operating expenses	5.2
Music and entertainment	1.1
Advertising and promotion	1.3
Utilities	2.2
Administrative and general	5.1
Repairs and maintenance	1.6
Total Controllable Expenses	48.0%
Income Before Occupation Costs	16.0%
Occupation Costs	
Rent	3.9%
Property taxes	.3
Other taxes	.1
Property insurance	.9
Interest	.2
Total Occupation Costs	5.4%
Income Before Depreciation	10.6%
Depreciation	1.5%
Income Before Income Taxes	9.1%

Profile of Participants

The following summary of characteristics of the typical restaurants in this study provides background information which can be helpful when comparing operating results.

The typical California coffee shop participant:

- Has table and counter seats, serving a general American fare only.
- Has a median size of 200 seats, ranging from 100 to 430.
- Is company operated.
- Is over 10 years old.
- Serves wine and beer only, as opposed to full liquor service.
- Is open 24 hours per day.
- Has a median sales volume of $1,147,000, ranging from approximately $500,000 to over $1.8 million.

The typical California full-service dinner house participant:

- Has booth and table seats, serving a Continental and American menu, especially steak and seafood.
- Has a median size of 270 seats, ranging from 65 to 1400.
- Is company operated.
- Is over 10 years old.
- Provides a full liquor service.
- Does not provide 24 hour service.
- Has a median sales volume of $1,478,000, ranging from slightly less than $500,000 to nearly $10 million.

Exhibit 2

A Profile of Restaurants Sampled

	All Restaurants	Coffee Shops Only	Dinner Houses Only
Type:			
Coffee shop	21.5%	100.0%	—
Full-service dinner house	78.5	—	100.0%
Sales Volume:			
Less than $1,000,000	25.3%	35.3%	22.6%
$1,000,000 and over	74.7	64.7	77.4
Management:			
Company operated	80.8%	87.5%	79.0%
Franchised	—	—	—
Management contract	1.3	—	1.6
Individual owner	17.9	12.5	19.4
Age:			
Under 2 years old	2.7%	—	3.4%
Between 2 and 4.9 years	17.3	—	22.0
Between 5 and 10 years	24.0	18.8%	25.4
Over 10 years	56.0	81.2	49.2
Beverages Served:			
Full liquor service	68.3%	—	87.1%
Wine & beer only	20.3	58.8%	9.7
No alcoholic beverages	10.1	35.3	3.2
Other	1.3	5.9	—
Hours of Operation:			
Open 24 hours per day	21.5%	94.1%	1.6%
Open less than 24 hours	78.5	5.9	98.4

Income Statements

The ratio to total sales and amount per seat for coffee shops and dinner houses are presented in Exhibits 3a and 3b, respectively. The ratio of food sales to total sales was over 12 percentage points higher in 1979 for coffee shops than for dinner houses, since liquor sales were not a major factor in the revenues of coffee shops. Net income before income taxes decreased slightly in coffee shops between 1978 and 1979, as both a ratio to total sales and an amount per seat. Although the ratio of total income to sales was higher in coffee shops for both years, the ratio of both controllable expenses and occupation costs to total sales was lower in dinner houses than in coffee shops. Despite these higher expense ratios in coffee shops, the net income before income taxes was higher in both years for coffee shops, although the ratio of net income to sales decreased slightly from 1978 to 1979. The income per seat in coffee shops was over twice that of dinner houses in 1978; however, the gap closed somewhat in 1979 when the income per seat in coffee shops was approximately 50 percent over that in dinner houses. Dinner houses saw an increase of 33 percent in net income before income taxes as an amount per seat from 1978 to 1979, despite increased controllable expenses and occupation costs.

For additional information on ratios to total sales and amounts per seat, see Exhibits 13 through 18.

Exhibit 3a

COFFEE SHOPS
Ratio to Total Sales and Amount Per Seat[1]

	Ratio to Total Sales		Amount Per Seat	
	1979	1978	1979	1978
Sales				
Food	87.8%	87.1%	$5,937	$5,659
Beverage	17.7	18.7	861	838
Total Sales	100.0%	100.0%	$6,435	$6,227
Cost of Sales				
Food	28.2%	27.6%	$1,870	$1,766
Beverage	4.3	4.6	212	205
Total Cost of Sales	32.4%	32.0%	$2,064	$1,984
Total Gross Profit	67.6%	68.0%	$4,371	$4,243
Other Income	.3%	.3%	$ 22	$ 18
Total Income	67.7%	68.2%	$4,384	$4,254
Controllable Expenses				
Payroll	28.9%	28.0%	$1,847	$1,730
Employee benefits	6.7	7.1	449	452
Direct operating expenses	4.0	4.2	259	258
Music and entertainment	1.0	.9	27	16
Advertising and promotion	2.9	3.1	145	166
Utilities	2.7	2.6	171	153
Administrative and general	4.3	4.4	270	272
Repairs and maintenance	2.1	1.9	123	110
Total Controllable Expenses	49.6%	48.6%	$3,153	$2,987
Income Before Occupation Costs	18.1%	19.6%	$1,231	$1,267
Occupation Costs				
Rent	5.4%	5.6%	$ 314	$ 300
Property taxes	1.0	1.4	32	45
Other taxes	.4	.4	19	21
Property insurance	.7	.6	36	36
Interest	.7	.4	14	6
Total Occupation Costs	6.3%	6.6%	$ 347	$ 338
Income Before Depreciation	13.5%	12.5%	$ 720	$ 927
Depreciation	1.5%	1.5%	$ 97	$ 88
Income Before Income Taxes	13.0%	14.0%	$1,060	$1,153

[1]Additional breakdowns for ratio to total sales and amount per seat are presented in Exhibits 13, 14, 15, 16, 17 and 18.

Exhibit 3b

DINNER HOUSES
Ratio to Total Sales and Amount Per Seat

	Ratio to Total Sales		Amount Per Seat	
	1979	1978	1979	1978
Sales				
Food	75.6%	76.7%	$4,631	$3,746
Beverage	26.3	25.7	1,526	1,191
Total Sales	100.0%	100.0%	$6,071	$4,981
Cost of Sales				
Food	30.4%	30.0%	$1,861	$1,447
Beverage	6.3	6.0	370	276
Total Cost of Sales	36.5%	35.8%	$2,220	$1,770
Total Gross Profit	63.5%	64.2%	$3,852	$3,210
Other Income	1.0%	1.0%	$ 61	$ 68
Total Income	64.2%	64.8%	$3,917	$3,247
Controllable Expenses				
Payroll	25.0%	24.8%	$1,510	$1,228
Employee benefits	5.8	5.7	386	306
Direct operating expenses	5.3	5.5	313	268
Music and entertainment	2.0	2.2	104	88
Advertising and promotion	1.6	1.2	94	62
Utilities	2.2	1.9	120	93
Administrative and general	5.4	5.2	280	252
Repairs and maintenance	1.7	1.4	93	69
Total Controllable Expenses	47.3%	46.3%	$2,798	$2,287
Income Before Occupation Costs	16.8%	18.5%	$1,092	$ 944
Occupation Costs				
Rent	4.1%	4.6%	$ 252	$ 228
Property taxes	.5	.6	33	26
Other taxes	.4	1.2	17	45
Property insurance	1.5	1.2	70	63
Interest	.8	.8	45	42
Total Occupation Costs	5.6%	6.2%	$ 316	$ 298
Income Before Depreciation	10.9%	11.8%	$ 817	$ 633
Depreciation	1.9%	1.8%	$ 109	$ 85
Income Before Income Taxes	10.9%	10.3%	$ 694	$ 521

Average Check

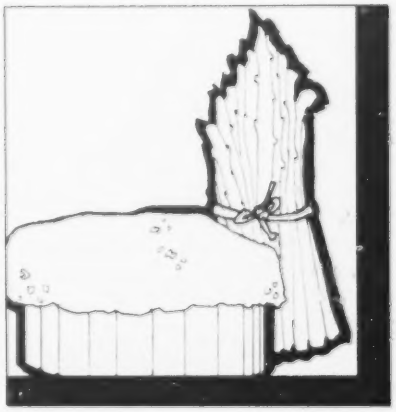
Exhibit 4 illustrates the average food check and total check for 1979. The average total check for coffee shops in 1979 was $5.43, over 30 percent less than the average dinner house receipt. Company operated restaurants reported an average check of $6.99, 47 cents higher than the receipts reported by individual owners. As expected, those restaurants serving liquor had higher average checks than those that did not serve any alcoholic beverages.

Exhibit 4

Average Check

	Average Food Check	Average Total Check
	1979	1979
All Restaurants Reporting	$5.16	$6.84
Type:		
Coffee Shop	$4.47	$5.43
Dinner House	5.29	7.14
Sales Volume:		
Less than $1,000,000	$4.71	$5.61
$1,000,000 and over	5.28	7.26
Type of Management:**		
Company operated	$5.22	$6.99
Management contract	*	*
Individual owner	5.17	6.52
Age:		
Under 2 years	*	*
2-4.9 years	$3.98	$5.76
5-10 years	5.14	7.34
Over 10 years	5.65	6.80
Beverages Served:		
Full liquor service	$5.24	$7.29
Wine & beer only	7.81	8.17
No alcoholic beverages	3.15	3.85
Hours of Operation:		
Open 24 hours per day	$4.99	$6.09
Open less then 24 hours	5.19	7.00

* Insufficient response.
** None of the restaurants are franchised.



Cost of Sales

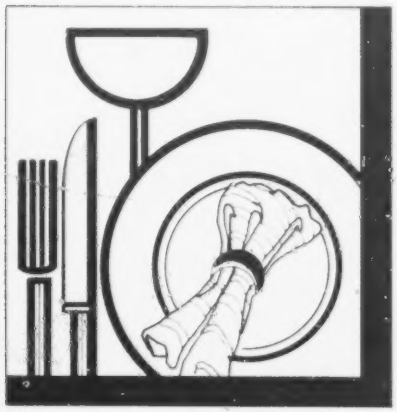
The costs per dollar of food, beverage and total sales are presented in Exhibit 5. For all restaurants in the sample in 1979, food costs absorbed 38 cents of the food dollar while beverage costs were 9 cents, over 75 percent less. Dinner houses, restaurants managed by individual owners and newer properties experienced the highest cost per dollar of total sales within each of their categories.

Exhibit 5

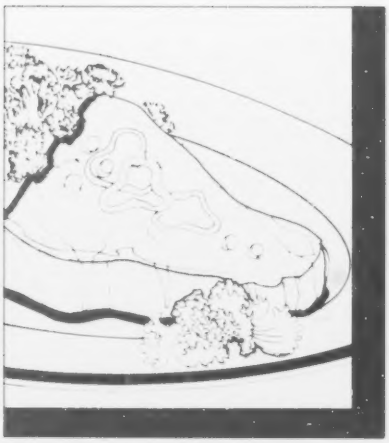
Cost Per Dollar of Sales

	Cost Per Dollar of Food Sales		Cost Per Dollar of Beverage Sales		Cost Per Dollar of Total Sales	
	1979	1978	1979	1978	1979	1978
All Restaurants Reporting	$ .38	$ .37	$ .09	$ .08	$ .35	$ .34
Type:						
Coffee Shop	$ .32	$ .32	$ .06	$ .06	$ .30	$ .30
Dinner House	.40	.39	.09	.09	.36	.35
Sales Volume:						
Less than $1,000,000	$ .35	$ .35	$ .07	$ .06	$ .35	$ .34
$1,000,000 and over	.39	.38	.09	.09	.34	.34
Type of Management:**						
Company operated	$ .39	$ .38	$ .09	$ .09	$ .34	$ .33
Management control	*	*	*	*	*	*
Individual owner	.37	.35	.08	.08	.36	.36
Age:						
Under 2 years	$ .43	*	$ .10	*	$ .38	*
2-4.9 years	.41	$ .39	.10	$ .10	.36	$ .34
5-10 years	.38	.36	.12	.11	.34	.34
Over 10 years	.38	.37	.07	.06	.35	.34
Beverages Served:						
Full liquor service	$ .40	$ .39	$ .09	$ .09	$ .35	$ .35
Wine & beer only	.33	.32	.06	.05	.32	.32
No alcoholic beverages	.34	.32	*	*	.34	.33
Hours of Operation:						
Open 24 hours per day	$ .33	$ .32	$ .06	$ .06	$ .30	$ .30
Open less than 24 hours per day	.40	.39	.09	.09	.36	.35

* Insufficient response.
** None of the restaurants are franchised.



Sales Per Square Foot and Sales Per Employee



Coffee shops realized sales of $215 per square foot in 1979, $24 less than in dinner houses, as shown in Exhibit 6. In 1978, those restaurants reporting revenues under $1,000,000 had sales per square foot 20 percent below those in the high volume restaurants; however, in 1979, the lower volume facilities reported sales of $270 per square foot, 53 percent above that in 1978 and 18 percent over the 1979 sales figure for the high volume restaurants. The older restaurants had consistently higher sales per square foot in both years than the newer facilities.

Exhibit 6 also illustrates sales per full-time equivalent employee for all categories. The number of full-time equivalent employees is derived by adding half the number of part-time employees to the total number of full-time. Total sales per full-time equivalent employee in 1979 for coffee shops and dinner houses were approximately $33,200 for each category. Those facilities run by an individual owner had sales per full-time equivalent employee of $38,178, almost 20 percent over the figure for company operated restaurants.

Exhibit 6

Sales Per Square Foot and Sales Per Full-time Equivalent Employee

	Sales Per Square Foot		Sales Per Full-time Equivalent Employee	
	1979	1978	1979	1978
All Restaurants Reporting	$234	$195	$33,236	$30,406
Type:				
Coffee Shop	$215	$208	$33,253	$31,676
Dinner House	239	191	33,230	29,888
Sales Volume:				
Less than $1,000,000	$270	$176	$35,579	$31,542
$1,000,000 and over	222	213	32,023	30,882
Type of Management:**				
Company operated	$219	$194	$32,085	$29,706
Management control	*	*	*	*
Individual owner	302	196	38,178	33,978
Age:				
Under 2 years	$157	*	*	*
2-4 9 years	180	$146	$31,466	$29,821
5-10 years	182	153	31,193	26,834
Over 10 years	243	220	34,684	32,199
Beverages Served:				
Full liquor service	$244	$190	$31,425	$27,100
Wine & beer only	222	210	41,354	40,128
No alcoholic beverage	173	173	32,909	32,296
Hours of Operation:				
Open 24 hours per day	$204	$196	$33,754	$32,064
Open less than 24 hours per day	243	195	33,083	29,814

* Insufficient response
** None of the restaurants are franchised.

Controllable Expenses

Administrative and General Expenses

An analysis of administrative and general expenses is illustrated in Exhibit 7. Management fees accounted for $96 per seat or nearly 35 percent of the total administrative and general expenses. Besides general insurance and fees on credit card accounts, which together represented 34 cents of the total administrative and general dollar, the remaining expenditures were distributed evenly among the rest of the categories.

Exhibit 7

Administrative and General Expenses*

	Ratio to Total Sales	Amount per Seat	Ratio to Total Administrative Expenses
Management fees	1.8%	$ 96	34.7%
Printing, stationery and office supplies	.3	17	6.3
Data processing costs	N	2	.6
Postage	N	1	.2
Telephone	.3	14	5.1
Dues and subscriptions	N	2	.8
Traveling expenses	.1	4	1.4
Insurance — general	.8	40	14.4
Fees on credit card accounts	1.0	55	19.7
Provision of doubtful accounts	N	2	.7
Cash shortages	.1	6	2.1
Professional fees — legal and accounting	.4	22	8.1
Protective and bank pick-up	.1	4	1.6
City sales tax	N	2	.8
Miscellaneous	.2	10	3.5
Total Administrative Expenses	5.1%	$277	100.0%

* Based on those supplying detail
N — Negligible amount.

Advertising and Sales Promotion

Advertising expenses accounted for only 1.7 percent of total sales, or $100 per seat as shown in Exhibit 9. Close to one-quarter of the total advertising expenses were allotted to newspapers and magazines, and one-third to radio, television, entertainment and sales promotion.

Payroll

Expenditures for payroll represented close to 26 percent of total sales and nearly $1,600 per seat, as presented in Exhibit 8. Service costs, for waiters, waitresses, hostesses, busboys, etc., accounted for over 41 cents of the payroll dollar. Expenditures for chefs, cooks and pantry help were the second largest portion of total payroll at 28 percent.

Exhibit 8

Payroll*

	Ratio to Total Sales	Amount per Seat	Ratio to Total Payroll
Service (waiters, hostesses, etc.)	10.5%	$ 657	41.3%
Bartenders	1.9	119	7.5
Preparation (chefs, cooks, pantry)	7.2	445	28.0
Sanitation (dishwashers, stewards, cleaners, etc)	2.0	126	7.9
Administration & general	3.8	234	14.7
Other	.2	10	.6
Total Payroll	25.6%	$1,591	100.0%

*Based on those providing detail

Exhibit 9

Advertising and Sales Promotion *

	Ratio to Total Sales	Amount Per Seat	Ratio to Total Advertising and Sales Promotion Expenditures
Newspapers and magazines	.4%	$ 24	24.1%
Direct mail circulars, etc.	.1	9	8.8
Advertising agency fees	.1	4	3.8
Outdoor signs	0	0	0
Radio and television	.3	15	15.0
Programs and directories	N	2	1.9
Prizes and favors	N	1	1.2
Donations	.1	3	3.1
Entertainment and sales promotion	.3	16	16.5
Other	.4	26	25.6
Total Advertising and Sales Promotion	1.7%	$100	100.0%

*Excluding franchise fees. Based on those supplying detail.
N — Negligible amount.

Direct Operating Expenses

The expenses incurred for laundry and linen rental, china and glassware, cleaning and paper supplies, and contract cleaning constituted two-thirds of total direct operating expenses, as shown in Exhibit 10. Total direct operating expenses represented 5 percent of total revenues and $300 per seat.

Exhibit 10

Direct Operating Expenses*

	Ratio to Total Sales	Amount per Seat	Ratio to Total Direct Operating Expenses
Uniforms	.1%	$ 9	3.1%
Laundry and linen rental	.9	51	17.4
China and glassware	.6	34	11.3
Silverware	N	1	.3
Kitchen utensils	.2	15	4.9
Kitchen fuel	.1	6	2.0
Cleaning supplies	.5	30	10.0
Paper supplies	.8	46	15.2
Guest supplies	.1	6	2.0
Bar expense	.1	4	1.2
Menus and wine lists	.1	5	1.5
Contract cleaning	.6	37	12.4
Exterminating	N	3	1.0
Flowers and decorations	.1	6	2.1
Auto expense	.1	7	2.2
Licenses	.2	13	4.4
Banquet expense	0	0	0
Miscellaneous	.5	27	9.0
Total Direct Operating Expenses	5.0%	$300	100.0%

*Based on those supplying detail.
N — Negligible amount.

Utilities

Exhibit 12 is an analysis of total utilities expenses. Electricity and heat accounted for approximately 61 and 19 percent of all utilities expenses, respectively. On an amount per seat basis, $132 per seat was allocated to utility costs, $81 of which was electricity alone.

Employees Benefits and Taxes

Exhibit 11 analyzes employee benefit expenditures for 1979. Payroll taxes accounted for nearly 3 percent of total sales and 44.5 percent of all employee benefit costs. Both workmen's compensation insurance and group or other employee benefits insurance represented approximately 16 cents of the total employee benefits dollar. As an amount per seat, over $400 per seat was allocated to employee benefits and taxes.

Exhibit 11

Employee Benefits and Taxes*

	Ratio to Total Sales	Amount per Seat	Ratio to Total Employee Benefits
Payroll taxes	2.7%	$179	44.5%
Workmen's compensation insurance	1.0	66	16.4
Group employee benefits insurance	1.0	68	16.9
Employee meals	.6	39	9.8
Other	.7	50	12.4
Total Employee Benefits and Taxes	6.0%	$402	100.0%

*Based on those supplying detail.

Exhibit 12

Utilities*

	Ratio to Total Sales	Amount per Seat	Ratio to Total Utilities Expenses
Electricity	1.4%	$ 81	61.2%
Electric bulbs	N	1	.8
Water	.3	14	10.4
Waste removal	.2	11	8.5
Heat (fuel)	.4	25	18.9
Engineers supplies	N	N	.1
Miscellaneous	N	N	.1
Total Utilities	2.3%	$132	100.0%

* Based on those supplying detail.
N — Negligible amount.

Summary

The exhibits on the following pages (Exhibit 13 through Exhibit 18) compare the ratios to total sales and amounts per seat for the following subgroups: sales volume, age of restaurant, type of management, category of beverages served and hours of operation.

Exhibit 13

Ratio to Total Sales and Amount Per Seat—For All Restaurants

	ALL RESTAURANTS			
	Ratio to Total Sales		Amount Per Seat	
	1979	1978	1979	1978
Sales				
Food	78.2%	79.5%	$4,934	$4,283
Beverage	24.8	24.2	1,404	1,111
Total Sales	100.0%	100.0%	$6,158	$5,337
Cost of Sales				
Food	30.0%	29.3%	$1,863	$1,537
Beverage	6.0	5.7	341	259
Total Cost of Sales	35.6%	34.7%	$2,182	$1,832
Total Gross Profit	64.4%	65.3%	$3,976	$3,505
Other Income	.9%	.8%	$ 52	$ 52
Total Income	65.0%	65.7%	$4,031	$3,535
Controllable Expenses				
Payroll	25.9%	25.7%	$1,591	$1,371
Employee benefits	6.0	6.1	402	351
Direct operating expenses	5.0	5.2	300	265
Music & entertainment	1.9	1.9	96	72
Advertising and promotion	1.7	1.5	100	77
Utilities	2.3	2.1	132	110
Administrative & general	5.1	5.0	277	257
Repairs & maintenance	1.8	1.6	100	81
Total Controllable Expenses	47.8%	47.0%	$2,884	$2,487
Income Before Occupation Cost	17.1%	18.8%	$1,125	$1,035
Occupation Costs				
Rent	4.4%	4.8%	$ 265	$ 246
Property taxes	.6	.8	33	31
Other taxes	.4	1.2	17	43
Property insurance	1.3	1.1	61	54
Interest	.8	.7	40	35
Total Occupation Costs	5.8%	6.3%	$ 323	$ 308
Income Before Depreciation	11.4%	12.0%	$ 799	$ 705
Depreciation	1.8%	1.7%	$ 106	$ 85
Income Before Income Taxes	11.1%	10.8%	$ 735	$ 606

Exhibit 14

Ratio to Total Sales and Amount Per Seat—For Sales Volume

	SALES VOLUME							
	Ratio to Total Sales				Amount Per Seat			
	Less than $1,000,000		$1,000,000 and over		Less than $1,000,000		$1,000,000 and over	
	1979	1978	1979	1978	1979	1978	1979	1978
Sales								
Food	85.9%	84.7%	76.1%	77.4%	$5,664	$4,249	$4,748	$4,373
Beverage	20.5	20.1	25.7	25.2	1,661	902	1,448	1,188
Total Sales	100.0%	100.0%	100.0%	100.0%	$6,194	$5,130	$6,147	$5,528
Cost of Sales								
Food	30.0%	29.1%	29.9%	29.3%	$1,953	$1,425	$1,840	$1,605
Beverage	5.1	4.9	6.2	5.8	287	218	351	272
Total Cost of Sales	35.4%	34.3%	35.7%	34.8%	$2,182	$1,754	$2,182	$1,897
Total Gross Profit	64.7%	65.7%	64.3%	65.2%	$4,013	$3,377	$3,965	$3,632
Other Income	.5%	.5%	1.0%	1.0%	$ 22	$ 29	$ 57	$ 66
Total Income	64.9%	65.9%	65.1%	65.9%	$4,021	$3,389	$4,034	$3,673
Controllable Expenses								
Payroll	26.2%	26.6%	25.8%	25.0%	$1,610	$1,332	$1,585	$1,403
Employee benefits	5.6	6.3	6.2	6.4	349	315	420	390
Direct operating expenses	4.2	4.6	5.3	5.4	239	224	320	287
Music & entertainment	1.6	2.1	2.0	2.0	135	83	91	75
Advertising and promotion	2.9	2.6	1.5	1.1	178	135	84	59
Utilities	2.4	2.3	2.3	2.0	136	115	131	110
Administrative & general	3.7	4.2	5.5	5.0	213	199	294	267
Repairs & maintenance	2.0	1.8	1.7	1.4	125	91	92	76
Total Controllable Expenses	45.5%	47.3%	48.6%	46.8%	$2,758	$2,348	$2,923	$2,601
Income Before Occupation Costs	19.4%	18.6%	16.4%	19.1%	$1,263	$1,040	$1,082	$1,078
Occupation Costs								
Rent	4.3%	4.3%	4.4%	4.9%	$ 255	$ 205	$ 268	$ 265
Property taxes	.8	.7	.5	.8	54	31	26	31
Other taxes	.3	1.4	.4	1.2	29	62	16	44
Property insurance	.8	.7	1.4	1.2	32	27	70	65
Interest	.7	1.0	.9	.6	39	35	40	34
Total Occupation Costs	5.9%	5.9%	5.7%	6.4%	$ 335	$ 268	$ 320	$ 328
Income Before Depreciation	9.6%	12.2%	11.8%	12.7%	$ 576	$ 712	$ 853	$ 749
Depreciation	1.8%	1.7%	1.8%	1.7%	$ 105	$ 77	$ 107	$ 88
Income Before Income Taxes	15.5%	10.6%	10.2%	10.2%	$ 920	$ 800	$ 695	$ 581

Exhibit 15

Ratio to Total Sales and Amount Per Seat—For Management*

	MANAGEMENT							
	Ratio to Total Sales				Amount Per Seat			
	Company Operated		Individual Owner		Company Operated		Individual Owner	
	1979	1978	1979	1978	1979	1978	1979	1978
Sales								
Food	77.4%	78.6%	79.5%	81.0%	$4,820	$4,091	$5,010	$4,622
Beverage	25.2	24.5	24.2	23.7	1,455	1,149	1,164	892
Total Sales	100.0%	100.0%	100.0%	100.0%	$6,068	$5,157	$6,274	$5,778
Cost of Sales								
Food	30.1%	29.5%	29.3%	28.7%	$1,854	$1,498	$1,817	$1,589
Beverage	6.1	5.8	5.7	5.6	355	269	273	205
Total Cost of Sales	36.1%	35.3%	33.9%	32.9%	$2,185	$1,805	$2,120	$1,874
Total Gross Profit	63.9%	64.7%	66.1%	67.1%	$3,883	$3,353	$4,155	$3,903
Other Income	1.0%	.9%	.5%	.4%	$ 58	$ 60	$ 27	$ 19
Total Income	64.5%	65.2%	66.5%	67.1%	$3,945	$3,386	$4,173	$3,915
Controllable Expenses								
Payroll	25.3%	25.2%	28.1%	27.6%	$1,528	$1,296	$1,786	$1,599
Employee benefits	5.9	5.7	6.6	7.7	390	328	438	432
Direct operating expenses	5.2	5.4	4.5	4.4	310	270	263	238
Music & entertainment	2.0	1.9	1.6	2.1	101	78	71	60
Advertising and promotion	1.8	1.5	1.5	1.2	104	78	80	71
Utilities	2.3	2.0	2.2	2.1	131	107	126	114
Administrative & general	5.3	5.3	4.5	3.8	278	260	258	227
Repairs & maintenance	1.9	1.5	1.4	1.6	103	80	82	75
Total Controllable Expenses	47.7%	46.6%	49.0%	48.9%	$2,830	$2,398	$3,019	$2,735
Income Before Occupation Costs	16.8%	18.6%	17.5%	18.5%	$1,090	$ 973	$1,154	$1,180
Occupation Costs								
Rent	4.4%	4.9%	4.2%	4.5%	$ 266	$ 250	$ 255	$ 218
Property taxes	.6	.8	.5	.7	35	32	22	26
Other taxes	.4	1.3	.2	.9	19	45	9	33
Property insurance	1.3	1.1	1.3	.7	66	60	43	31
Interest	.7	.7	1.1	.9	39	39	43	18
Total Occupation Costs	5.7%	6.5%	5.8%	5.8%	$ 326	$ 318	$ 302	$ 254
Income Before Depreciation	11.6%	11.7%	9.3%	12.7%	$ 803	$ 649	$ 653	$ 925
Depreciation	1.7%	1.7%	2.1%	1.9%	$ 103	$ 83	$ 120	$ 94
Income Before Income Taxes	11.2%	10.6%	10.8%	12.7%	$ 713	$ 554	$ 873	$1,037

* Insufficient data for management contract category. None of the restaurants in the sample were franchised.

Exhibit 16

Ratio to Total Sales and Amount Per Seat— For Age of Restaurant*

	AGE OF RESTAURANT					
	Ratio to Total Sales					
	Between 2 and 4.9 years		Between 5 and 10 years		Over 10 years	
	1979	1978	1979	1978	1979	1978
Sales						
Food	74.3%	74.6%	71.2%	72.4%	83.1%	84.1%
Beverage	27.8	28.3	30.9	30.1	20.6	20.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales						
Food	30.2%	29.3%	27.1%	26.7%	31.4%	30.6%
Beverage	6.5	6.5	7.3	6.9	5.2	4.9
Total Cost of Sales	36.2%	35.2%	34.9%	34.3%	36.0%	35.1%
Total Gross Profit	63.8%	64.8%	65.1%	65.7%	64.0%	64.9%
Other Income	.9%	1.6%	1.1%	.7%	.8%	.7%
Total Income	64.4%	65.6%	65.8%	66.1%	64.6%	65.3%
Controllable Expenses						
Payroll	28.8%	24.6%	26.3%	25.8%	26.0%	25.7%
Employee benefits	5.8	6.8	5.0	3.7	6.5	6.8
Direct operating expenses	5.5	6.1	5.4	5.3	4.6	4.8
Music & entertainment	3.0	3.0	2.4	2.7	1.3	1.2
Advertising and promotion	1.3	.6	1.9	2.1	1.7	1.6
Utilities	2.1	1.9	2.2	1.9	2.4	2.2
Administrative & general	4.9	6.2	6.2	6.0	4.6	4.0
Repairs & maintenance	1.5	1.6	1.9	1.5	1.9	1.6
Total Controllable Expenses	45.8%	47.5%	49.6%	47.5%	46.9%	45.9%
Income Before Occupation Costs	18.6%	18.1%	16.2%	18.6%	17.6%	19.4%
Occupation Costs						
Rent	2.8%	3.7%	5.6%	6.3%	4.5%	4.6%
Property taxes	.4	.4	.8	1.0	.6	.8
Other taxes	.5	1.1	.2	.2	.4	1.2
Property insurance	1.3	1.8	1.3	1.3	1.1	.8
Interest	.4	1.1	1.0	.7	.6	.6
Total Occupation Costs	4.0%	5.3%	7.4%	8.2%	5.5%	5.9%
Income Before Depreciation	10.9%	11.5%	12.1%	9.6%	11.4%	13.3%
Depreciation	2.1%	2.2%	1.9%	1.8%	1.5%	1.5%
Income Before Income Taxes	11.4%	8.1%	9.4%	11.2%	12.3%	12.5%

* Insufficient data for age group less than 2 years.

AGE OF RESTAURANT					
Amount Per Seat					
Between 2 and 4.9 years		Between 5 and 10 years		Over 10 years	
1979	1978	1979	1978	1979	1978
$4,779	$3,893	$4,130	$2,918	$5,297	$4,797
1,785	1,483	1,604	1,172	1,242	1,004
$6,427	$5,228	$5,531	$4,152	$6,361	$5,755
$1,912	$1,487	$1,548	$1,062	$1,986	$1,698
411	337	379	261	314	244
$2,291	$1,790	$1,917	$1,422	$2,281	$1,986
$4,136	$3,438	$3,614	$2,730	$4,081	$3,769
$ 68	$ 117	$ 45	$ 30	$ 50	$ 47
$4,178	$3,497	$3,643	$2,747	$4,155	$3,795
$1,554	$1,323	$1,401	$1,020	$1,661	$1,481
375	367	316	162	442	406
363	332	297	221	284	262
174	131	97	94	63	50
93	30	103	85	100	91
135	106	112	77	139	122
332	375	293	238	254	230
96	84	97	63	106	86
$3,005	$2,584	$2,640	$1,912	$2,927	$2,622
$1,173	$ 912	$1,003	$ 835	$1,185	$1,147
$ 199	$ 231	$ 294	$ 231	$ 278	$ 255
30	22	45	29	27	35
24	41	19	7	13	44
75	87	57	48	54	49
33	77	43	21	34	33
$ 269	$ 304	$ 366	$ 294	$ 316	$ 308
$ 711	$ 591	$ 890	$ 427	$ 793	$ 859
$ 135	$ 107	$ 102	$ 66	$ 94	$ 85
$ 707	$ 349	$ 554	$ 522	$ 883	$ 809

Exhibit 17

Ratio to Total Sales and Amount Per Seat—For Beverages Served

	BEVERAGES SERVED					
	Ratio to Total Sales					
	Full Liquor Service		Wine & Beer Only		No Alcoholic Beverages	
	1979	1978	1979	1978	1979	1978
Sales						
Food	74.8%	75.5%	82.1%	83.1%	95.0%	94.8%
Beverage	26.2	25.7	17.9	16.9	*	*
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales						
Food	30.2%	29.6%	26.9%	29.6%	32.8%	31.0%
Beverage	6.3	6.0	4.4	4.1	*	*
Total Cost of Sales	36.2%	35.2%	33.4%	33.6%	36.0%	34.5%
Total Gross Profit	63.8%	64.8%	66.6%	66.4%	64.0%	65.5%
Other Income	1.1%	1.0%	.3%	.3%	.1%	.2%
Total Income	64.6%	65.4%	66.8%	66.6%	64.0%	65.6%
Controllable Expenses						
Payroll	25.7%	25.6%	25.3%	25.4%	27.3%	25.7%
Employee benefits	6.0	5.8	6.8	7.5	4.8	5.1
Direct operating expenses	5.5	5.8	4.5	4.3	3.4	3.4
Music & entertainment	2.2	2.3	3	.2	1.3	1.6
Advertising and promotion	1.4	1.0	2.7	3.0	4.2	3.5
Utilities	2.2	1.9	2.5	2.3	2.6	2.4
Administrative & general	5.7	5.6	4.6	4.5	2.4	2.5
Repairs & maintenance	1.7	1.5	1.8	1.6	2.6	1.9
Total Controllable Expenses	48.7%	48.2%	47.0%	47.0%	44.3%	41.3%
Income Before Occupation Costs	15.8%	17.3%	19.9%	19.6%	19.7%	24.2%
Occupation Costs						
Rent	3.9%	4.5%	5.1%	5.1%	6.8%	6.1%
Property taxes	.5	.6	.8	1.4	.7	.8
Other taxes	.4	1.2	.3	.4	*	*
Property insurance	1.7	1.5	.5	.5	.5	.3
Interest	.9	.8	.3	.4	1.0	*
Total Occupation Costs	5.5%	6.3%	6.1%	6.5%	8.4%	7.4%
Income Before Depreciation	9.9%	10.4%	15.2%	13.2%	16.9%	19.2%
Depreciation	2.0%	1.9%	1.4%	1.4%	1.0%	1.0%
Income Before Income Taxes	9.8%	8.7%	14.5%	14.6%	16.0%	21.4%

* Insufficient data.

BEVERAGES SERVED					
Amount Per Seat					
Full Liquor Service		Wine & Beer Only		No Alcoholic Beverages	
1979	1978	1979	1978	1979	1978
$4.548	$3.733	$5.891	$5.300	$4.678	$4.523
1.467	1.191	1.225	881	*	*
$6.030	$4.990	$6.768	$6.027	$4.971	$4.933
$1.838	$1.443	$1.890	$1.634	$1.596	$1.470
356	276	299	215	*	*
$2.195	$1.738	$2.203	$1.973	$1.803	$1.732
$3.835	$3.252	$4.565	$4.054	$3.168	$3.201
$ 66	$ 71	$ 22	$ 20	$ 2	$ 3
$3.909	$3.293	$4.583	$4.069	$3.168	$3.202
$1.542	$1.277	$1.738	$1.554	$1.321	$1.229
390	313	484	475	256	258
318	284	308	258	167	170
111	95	15	10	24	18
78	50	169	147	209	200
120	95	162	139	131	119
295	273	312	277	88	93
92	71	111	98	129	95
$2.854	$2.390	$3.209	$2.865	$2.140	$1.987
$1.025	$ 887	$1.374	$1.204	$1.028	$1.214
$ 234	$ 225	$ 341	$ 300	$ 293	$ 244
35	25	32	47	22	23
16	45	20	21	*	*
81	75	34	34	11	6
48	40	22	23	*	*
$ 302	$ 299	$ 398	$ 363	$ 334	$ 271
$ 840	$ 568	$ 739	$ 841	$ 586	$ 896
$ 116	$ 92	$ 100	$ 86	$ 33	$ 23
$ 613	$ 431	$ 953	$ 755	$ 833	$ 873

Exhibit 18

Ratio to Total Sales and Amount Per Seat — For Hours of Operation

	HOURS OF OPERATION							
	Ratio to Total Sales				Amount Per Seat			
	Open 24 Hours Per Day		Open Less Than 24 Hours Per Day		Open 24 Hours Per Day		Open Less Than 24 Hours Per Day	
	1979	1978	1979	1978	1979	1978	1979	1978
Sales								
Food	86.2%	85.5%	76.0%	77.2%	$5,408	$5,092	$4,791	$3,967
Beverage	18.4	19.3	26.3	25.7	958	909	1,516	1,178
Total Sales	100.0%	100.0%	100.0%	100.0%	$6,077	$5,817	$6,184	$5,145
Cost of Sales								
Food	27.9%	27.3%	30.5%	30.1%	$1,719	$1,593	$1,906	$1,515
Beverage	4.5	4.7	6.3	6.0	234	219	368	273
Total Cost of Sales	32.6%	32.0%	36.5%	35.8%	$1,956	$1,850	$2,254	$1,824
Total Gross Profit	67.4%	68.0%	63.5%	64.2%	$4,121	$3,967	$3,930	$3,321
Other Income	.3%	.3%	1.0%	1.0%	$ 22	$ 18	$ 61	$ 68
Total Income	67.6%	68.2%	64.2%	64.8%	$4,134	$3,978	$3,997	$3,357
Controllable Expenses								
Payroll	28.3%	27.4%	25.2%	25.0%	$1,688	$1,571	$1,561	$1,291
Employee benefits	6.7	7.1	5.8	5.7	432	431	392	315
Direct operating expenses	4.1	4.3	5.3	5.5	252	252	316	270
Music & entertainment	1.2	1.0	2.0	2.2	55	29	102	86
Advertising and promotion	2.9	3.1	1.6	1.2	144	164	94	62
Utilities	2.7	2.5	2.2	1.9	163	145	122	97
Administrative & general	4.3	4.4	5.3	5.2	266	267	281	254
Repairs & maintenance	2.1	1.9	1.7	1.4	121	107	94	70
Total Controllable Expenses	49.2%	48.3%	47.4%	46.4%	$2,964	$2,791	$2,858	$2,365
Income Before Occupation Costs	18.4%	20.0%	16.8%	18.4%	$1,170	$1,187	$1,111	$ 975
Occupation Costs								
Rent	5.1%	5.3%	4.2%	4.7%	$ 300	$ 287	$ 255	$ 231
Property taxes	1.1	1.6	.5	.6	31	41	33	28
Other taxes	.4	.4	.4	1.2	19	*	17	45
Property insurance	.8	.8	1.4	1.2	45	47	57	58
Interest	.7	.4	.8	.8	14	6	45	42
Total Occupation Costs	6.5%	6.9%	5.6%	6.2%	$ 361	$ 352	$ 313	$ 293
Income Before Depreciation	15.1%	12.6%	10.6%	11.8%	$ 847	$ 809	$ 789	$ 671
Depreciation	1.5%	1.5%	1.9%	1.8%	$ 95	$ 83	$ 110	$ 86
Income Before Income Taxes	13.4%	14.3%	10.9%	10.3%	$ 811	$ 726	$ 712	$ 598

* Insufficient data.